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Featured Q&A With Our Board of Advisors

Q Michelle Bachelet of Chile's ruling Concertacion coalition hopes to become the country's first woman president despite polls which show a narrowing, albeit still sizeable lead, going into this Sunday's election. Do you expect Bachelet to emerge the winner? What qualities, good and bad, would she bring to the presidency? What future do you see for conservative opposition parties in Chile following the presidential election?

A Guest Comment: Felipe Agüero:
"I expect Michelle Bachelet to emerge the winner out of this Sunday's election. An absolute majority cannot be ruled out, but it is unlikely, and there would then have to be a run-off election in January. Of course, many things can happen, and this is going to be a genuinely competitive election, but still I think she has got the best chance of becoming Chile's next president. She would bring winds of renovation to the presidency, even if the coalition she leads has been in power since 1990. This renovation will consist of new cadres, more women in important posts, and perhaps a leadership style that is truly closer to people's everyday concerns. Of course, being the first female president in Chile is in itself an important sign of change, just as it was when she was appointed the first female defense minister in the Americas. Also, she will attempt to capitalize on the widespread concern with inequality, and push for

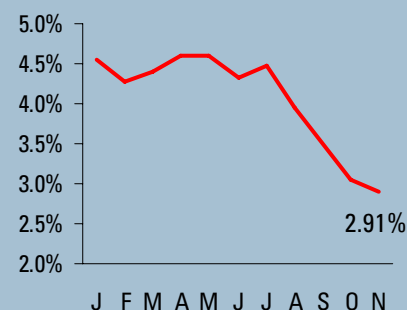
reforms and policies that squarely address that problem. She has indicated that she wants to emphasize pension reform precisely from that angle. Her strength, which has heavily helped her in the opinion polls, might also become a liability in government: she is, in a way, an outsider, not in any way like those that have reached the presidency in other Latin American countries, but in the sense that she was not the choice of the rather closed political elite. This will make it harder for her to cement the unity of purpose of a coalition that has shown signs of rift and exhaustion. Nonetheless, it appears likely that the elec-

Continued on page 4

CHART OF THE DAY

Mexico Inflation

Annual Rate, Jan-Nov 2005



Annual inflation in Mexico slowed to a record-low 2.91 percent in November, below the country's 3 percent target for the first time.

Source: Banco de Mexico, Bloomberg News.

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NEWS BRIEFS

Haitian High Court Again Rules US Millionaire Can Run for President

Haiti's Supreme Court on Thursday confirmed its previous ruling that a Haitian-born US millionaire Dumarsais Simeus can run for president in the country's upcoming elections, a lawyer for the candidate said. The ruling means the elections, scheduled for January 8, could be postponed because presidential ballots have already been printed. Election officials refused last month to put Simeus on the ballot because he had obtained US citizenship, while Haitian law bars foreign nationals from running. Simeus said he never renounced his citizenship.

Mexican Senate Approves Stock Market Reform

Mexico's Senate has approved legislation reforming the country's stock market to improve minority shareholders' rights, make public companies more transparent, and make it easier for small firms to go public. The legislation, aimed at attracting greater investment, also requires regulators to announce when they are investigating companies, and makes top executives personally accountable when their firms break rules.

Minister: Brazil Has no Plans to Adopt Curbs on Emissions

Brazil has no plans to adopt mandatory curbs on emissions of heat-trapping gases, Environment Minister Marina Silva said Thursday. Silva said Brazil is already doing its share to lower global warming by reducing the pace of deforestation of the country's vast Amazon rainforest. Industrialized countries carry the greatest responsibility for cutting emissions, she said.

Source: Reuters.

Political News

Pro-Chavez Lawmakers Accuse CIA, Opposition of Anti-Government Plot

Venezuelan lawmakers allied with President Hugo Chavez said Thursday that the government had foiled a plot by opposition groups and the US Central Intelligence Agency to overthrow the country's government, the Associated Press reported. National Assembly President Nicolas Maduro said a group of active and former army officers, joined by civilians, planned to attack military bases and assassinate government officials last week to "destabilize" the country and force the suspension of last Sunday's legislative elections, which were swept by pro-Chavez groups amid an opposition boycott. "They wanted to suspend the elections, attack the



Maduro

Photo: National Assembly.

president and kill key government leaders," Maduro was quoted as telling reporters. He said a bomb attack on an oil pipeline, which was quickly repaired with no disruption to production, was part of the plot, although he provided no details. The government has said several people were detained in connection with the pipeline explosion, but has not provided their identities. Cilia Flores, a lawmaker from Chavez's Fifth Republic Movement party, said the CIA and staff from the US Embassy in Caracas were involved in the plot, although she did not elaborate. US Embassy spokesman Brian Penn rejected the claims. "Accusations of this type are unfounded," he was quoted as saying. Chavez himself has repeatedly accused the US of seeking his overthrow and has warned that the supply of oil to the US would be cut off if anything were to happen to him. US officials deny plotting to topple Chavez and say the Venezuelan leader seeks confrontation abroad to fire up his domestic constituency. Venezuelan opposition leaders said Thursday that pro-Chavez lawmakers' accusations of a CIA-backed plot were aimed at taking public attention off the 75 percent abstention rate from Sunday's elections. "We, as part of a democratic opposition movement, are

not planning to kill Chavez or topple the government," said Henry Ramos, secretary general of the Democratic Action opposition party, according to the AP. The low voter turnout in Sunday's vote came amid a boycott of the election by the country's main opposition groups, which accused electoral authorities of bias in favor of the government. Observer missions sent by the Organization of American States and European Union to monitor the election said there was no evidence of irregularities in the election, but lamented what they called an atmosphere of mutual distrust.

Economic News

Regulator Sees Pension Funds Diversifying Next Year

Mexican pension funds should start diversifying their investment portfolios away from a dependence on local public debt and into stocks and international securities by next year, the head of industry regulator Consar said Thursday, according to Reuters. "We expect that as of next year ... a stage of much faster portfolio diversification will begin," Consar President Mario

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- Consar President Mario Budebo

Budebo was quoted as telling reporters. Budebo made the declaration amid criticism that Mexico's 15 pension fund administrators have not moved to diversify their combined \$53 billion in holdings despite the adoption of regulations in January allowing them to invest part of their holdings in stocks and foreign debt. Although they had lobbied for the new regulations for years, the pension fund operators had less than 1 percent of their portfolios invested in stocks at the end of October and virtually nothing abroad. Nearly all of the funds' assets remain invested in Mexican government debt. The pension funds have had a

reduced incentive to diversify this year amid local interest rates that are higher than US yields and a strong peso currency. However, Budebo said fund managers have spent this year preparing to diversify their portfolios by choosing international advisors and planning investment strategies. Some analysts also expect diversification to accelerate as competition seeps into the pension fund industry, in which funds already compete on the commissions they charge contributors [Editor's note: see related Q&A in the June 3, 2005 issue of the *Latin America Advisor*].

IMF Debt Relief to Benefit Bolivia, Honduras, and Nicaragua

The International Monetary Fund on Thursday approved a plan to cancel \$4.8 billion worth of debt held by 20 of the world's poorest countries, including Bolivia, Honduras, and Nicaragua, Reuters reported. The IMF's Multilateral Debt Relief Initiative stems from a plan launched in June by the Group of Eight industrialized nations and will be funded in part by profits from 1999 off-market gold sales, as well as by existing contributions from 43 countries to the IMF's lending facility for poor countries, according to Reuters. The IMF also said it had commitments from donors to fill a \$285 million financing gap in the debt relief package. The three Latin American countries are among 18 countries eligible for the program because they completed requirements under the IMF's Heavily Indebted Poor Countries initiative. The countries eligible for debt relief will have 100 percent of debts owed to the Fund at the end of 2004 written off. No provision has been made for debt issued this year. The debt write-off will free up resources in the budgets for spending on poverty reduction programs, the IMF's director for policy development, Mark Allen, said. "[The debt write-off] will relieve the budgets of these countries of considerable expenditures, which we are hoping will be used to reach the millennium development goals," Allen was quoted as saying. "We will be following up with countries in the course of our normal contacts on how they are actually spending this money," the IMF official added.

Capitol Hill Watch

A weekly look at US congressional activity on Latin America

Experts: Violence Against Journalists on the Rise in Latin America

Violence against journalists in Latin America has increased in recent years, experts said Thursday on Capitol Hill. "In no country in the region is freedom of expression completely secure," Jose Miguel Vivanco, director for the Americas at Human Rights Watch, said at an annual symposium hosted by the Inter-American Dialogue. According to William E. Casey, an editor at *The Wall Street Journal* and a representative of the Inter-American Press Association, a total of ten journalists have been killed in Latin America this year. Panelists said journalists especially face dangers in Colombia, northern Mexico, and Central America. Governments are not doing enough to combat and prosecute crimes against journalists, resulting in impunity and self-censorship, they said. Venezuela, where a climate of self-censorship pervades the media, has ignored recommendations by the Inter-American Commission on Human Rights on improving press freedom, Vivanco said. Roberto Saba of the Association for Civil Rights in Argentina outlined a failed effort to push through his country's Congress a freedom of information act similar to that in the US.

Source: the Inter-American Dialogue.

Lawmakers Meet with Embattled Nicaraguan President Enrique Bolanos

Several lawmakers met Thursday with Nicaraguan President Enrique Bolanos to discuss the Central American nation's political outlook in a members-only session. Bolanos expressed gratitude to House members for passing the DR-CAFTA trade accord and selecting Nicaragua to sign a five-year, \$175 million compact with the Millennium Challenge Corporation to promote economic growth. Bolanos said the tensions between his government and the opposition Aleman-Ortega Pact continue to threaten his country's democracy and future stability. Bolanos has faced opposition since political forces aligned against him in 2002 and stripped him of many presidential powers. The Pact-controlled National Assembly continues to pass laws to undermine the Constitution and democratic institutions, Bolanos told lawmakers. Members recommended that the Organization of American States send observers to monitor presidential and legislative elections in Nicaragua in November 2006. In a poll conducted during October, only 13.3 percent of Nicaraguans rated Bolanos' performance in office as good or very good, and 58.3 percent said the country is on the wrong track.

Source: : Office of Dan Burton, Borge y Asociados/Centro de Investigaciones de la Comunicacion.



Nicaraguan President Enrique Bolanos met with lawmakers Wednesday, including Reps. Robert Menendez (D-NJ), left, and Dan Burton (R-IN), right.

Photo: Office of Rep. Dan Burton.

Featured Q&A*Continued from page 1*

tion will yield a stronger support in congress for the ruling coalition, the Concertacion. Those rifts, however, pale in comparison to those of the conservative opposition. One of the most important impacts of the election will be to contest the grip that the UDI and Lavin have kept until recently. This should be the beginning of a difficult and probably protracted process of reinventing itself with the hopes of winning a presidency that has proved so elusive for the right."

A Guest Comment: Steve Johnson: "No matter what happens in this race, Chile will continue to lead Latin America in economic advances, democratic stability, and political reform. Chile has been signing trade agreements with every potential partner in sight, expanding markets and employment opportunities, and shedding vestiges of a non-democratic past in abolishing non-elected senate seats. Chileans no longer disagree on what system to adopt or the rules of the game. The domestic debate is about policies—best options to keep the country on an upward track and expand prosperity to those under the poverty line. According to polls, former Health, and later, Defense Minister Michelle Bachelet has been the front-runner. But her July lead of 46 percent has recently slipped to 38 percent, while center-right businessman Sebastian Pinera has advanced from 15 to 22 percent. Meanwhile, former Santiago Mayor Joaquin Lavin has dropped from 22 to 16 percent. Pinera's surge means there may be a run-off following the December 11 vote. However, the same polls indicate that Bachelet would most likely win a second round. Even so, a lot of people seem to be taking another look at Pinera's campaign and, perhaps like Vicente Fox did in Mexico, he could pull an upset over the center-left coalition that has presided in Chile since 1990."

A Guest Comment: Virgil Esguerra "Bachelet will challenge—and ultimately defeat—Sebastian Pinera in a

second round. Although Bachelet will be tested by a reinvigorated Pinera-Lavin alliance, the Concertacion political machinery and pervasive voter distrust of wealthy politicians should help her edge Pinera by a much larger margin of victory than predecessor-mentor Pres. Lagos achieved in 2000. The best quality that Bachelet will bring to office is her will to preserve Lagos' fiscal austerity (notably the 1 percent structural surplus rule) while embarking on somewhat of a social crusade. Bachelet is particularly skillful at providing for every disenfranchised constituency (e.g. women, indigenous, contract laborers) with her a la carte platform. On the other hand, Bachelet can be blind to innovative, wide-sweeping changes. For instance, her campaign trail resolve to keep Codelco 100 percent state owned instead of opening a 20 percent minority stake to national pensions (proposed by Pinera), misses out on a popular opportunity to kill two birds (democratizing copper windfalls while reforming the pension). The conservative opposition, still recovering from the Lavin-Pinera schism, will be much weaker in Congress. To survive politically, they will fight tooth-and-nail against reform of the binomial electoral system. To differentiate themselves, they will offer politically expedient answers, particularly in economic policy (e.g. FX intervention, reducing the 1 percent-structural surplus rule to zero)."

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Latin America Advisor

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Latin America Advisor is published every business day by the Inter-American Dialogue
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

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